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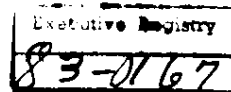
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Executive Secretary  
1/11/83  
Date



~~(With Secret Attachment)~~



OFFICE OF THE SECRETARY OF THE TREASURY

WASHINGTON, D.C. 20220

January 10, 1983

MEMORANDUM FOR THE VICE PRESIDENT  
THE SECRETARY OF STATE  
THE SECRETARY OF DEFENSE  
THE SECRETARY OF AGRICULTURE  
THE SECRETARY OF COMMERCE  
THE SECRETARY OF INTERIOR  
THE SECRETARY OF ENERGY  
THE ATTORNEY GENERAL  
THE DIRECTOR, OFFICE OF MANAGEMENT AND BUDGET  
CHAIRMAN, COUNCIL OF ECONOMIC ADVISORS  
ASSISTANT TO THE PRESIDENT FOR  
NATIONAL SECURITY AFFAIRS  
ASSISTANT TO THE PRESIDENT FOR POLICY DEVELOPMENT  
UNITED STATES TRADE REPRESENTATIVE  
✓ DIRECTOR OF CENTRAL INTELLIGENCE

SUBJECT Senior Interdepartmental Group on International  
Economic Policy (SIG-IEP)

The agenda has been changed for the meeting of the SIG-IEP, scheduled for Wednesday, January 12, at 4:00 p.m., in the Roosevelt Room.

Secretary Watt is away from Washington; and therefore, consideration of two agenda items has been postponed: Status of Kuwait under Mineral Lands Leasing Act; and Foreign Government-controlled Investment in the United States. One item has been added: Sixth Replenishment of the Inter-American Development Bank (IDB).

The agenda is now as follows:

1. Country debt problems: Yugoslavia, Poland, and Romania;
2. Sale of Alaskan oil to Japan;
3. Status report on NSDD 66 East-West study program; and
4. Sixth Replenishment of the IDB.

Attached, please find background papers for agenda items (1) and (4). Papers will not be circulated for items (2) and (3); the Department of State will make an oral presentation on these two items.

Attendance is limited to principal, plus one.

David E. Pickford  
Executive Secretary

Attachments

~~UNCLASSIFIED~~  
~~(With Secret Attachment)~~



SECRETYugoslaviaRecent Developments

The Swiss agreed to assume responsibility for organizing the multilateral assistance effort for Yugoslavia and chaired a meeting in Bern, January 6 and 7, 1983.

In addition to those countries that participated in the previous (December 17, 1982) meeting (U.S., U.K., France, Germany, Italy, Austria, and Switzerland) the group was expanded to include Belgium, the Netherlands, Norway, Sweden, Denmark and Canada. Kuwait and the IBRD attended as observers.

The Fund stated the nature of the Yugoslav problem primarily for the benefit of the new members and set the size of the financing gap at \$1.0-\$1.5 billion depending primarily on the amount of money drawn out by the banks. If the banks continued to withdraw sums at previous rates, then the gap would be closer to \$1.5 billion. If not, the gap would be closer to a billion dollars. Virtually all delegates indicated they would not pledge sums merely to bail out the banks and that the Fund had to make this clear when they met with the banks (Jan. 17-18).

The Fund said that the program which had been negotiated with the Yugoslavs was about the best that could be secured and expected for the Yugoslavs to carry out. There would be opportunity for adjustment at mid-year, particularly on interest rates in the priority sectors, which are now negative in real terms even though they have been increased some 10 percentage points by the year ending February 1983. Most countries indicated their willingness to proceed with the pledging exercise on the basis of the Fund's proposed program.

The participating countries pledged the following amounts of of medium term credits during the January 6-7 meetings:

	<u>Million dollars</u>
United States	\$ 222
United Kingdom	185 (of which \$65 would be guaranteed rollovers).
Switzerland	80
Netherlands	40
Japan	20

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SECRET

-2-

Italy	143
Germany	170
France	149
Belgium	25
Austria	106
	<u>51,140.</u>

The U.S. had the authority to pledge \$291 million provided our share did not exceed 20 percent of the total. This breaks down as follows: \$66 million in CCC guarantees for cotton already approved by the CCC but not previously put on the table, \$175 million in new CCC guarantees, and \$50 million in Eximbank insurance of bank export credits (subject to request and Eximbank Board approval). Since pledging did not go far beyond the \$1 billion level, all of these guarantees are not on the table. In addition, the Eximbank is rolling over some maturities to reflect project delays. This stretchout can be used as leverage for the next and final pledging session.

The U.K. pledge of \$185 million includes \$65 million of guaranteed rollovers and a substantial amount of previously approved credits which will be disbursed in 1983. These disbursements do not necessarily meet Yugoslavia's balance of payments financing needs. The Scandinavian countries and Canada were without instructions and did not pledge. The Kuwait observer noted the close ties between his country and Yugoslavia and stated that bilateral channels are available to help. He hoped his government would take positive action and said that Kuwait would attend the next meeting. The Austrians and Swiss indicated that they could provide a substantial portion of their pledge in the form of untied financial credits but conditioned it upon other countries also providing financial credits. For other countries pledges are in the form of medium-term tied export credits.

These credits can be helpful to Yugoslavia if they finance purchases which the Yugoslavs would have made in any case on commercial terms (e.g. 90 day credit or cash). If they do not, however, these credits will simply enhance Yugoslavia's ability to import more and to finance those imports.

IMF Director Whittome will invite western banks having major exposure in Yugoslavia to a meeting in Zurich on January 17 to discuss the Yugoslav's economic situation, the efforts of the official creditors to help and to stress the importance of the banks maintaining, and perhaps even increasing, their credits to Yugoslavia if the effort to avoid a rescheduling is to succeed.

SECRET

SECRET

-3-

The chair distributed a draft memorandum of understanding which countries were asked to take back to capitals on an ad referendum basis. This memorandum is also being sent to the Yugoslavs by the chair. The memorandum sets forth amounts, terms, and conditions which government representatives would recommend to their governments. It is not a binding document but would carry the force of a moral commitment to provide such credits assuming all conditions are met e.g., an IMF, short-term financing, etc.

The Yugoslavs have requested a three month, once-renewable \$500 million bridging credit from the BIS. We indicated that we might be able to participate in a bridging effort provided that a satisfactory medium-term package is arranged, there is Yugoslav/ IMF agreement on a sound program, there is appropriate collateral for the bridging loan, the loan is very short-term and that our share did not exceed 20 percent. The matter was discussed at the January 10, 1983 BIS meeting.

Next Steps

There are several decisions which must be taken between now and the next meeting, January 18-19.

- The Swiss have indicated that they will not negotiate with individual countries on the quantity or quality of their pledge. Therefore, we must decide whether we wish to persuade the British and the Japanese that they must improve the quantity and quality of their offers.
- We also have to decide whether we wish to follow up with the Canadians and the Nordics to encourage them to pledge an appropriate amount.
- We must decide on U.S. participation in a short term financing package (secured by Yugoslav gold) which is necessary as part of the overall operation. (Leutweiler, President of the BIS, proposed on January 10, 1983, that the BIS provide \$200 million in short-term financing and others provide \$300 million of which \$75 million would be the U.S. share. We hope to have more information by the time of the meeting.)

In addition to these decisions, we must clear the Memorandum of Understanding and carefully examine the IMF program when it is available. We must also prepare instructions for our delegation for the meeting of January 18-19.

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**DRAFT MEMORANDUM OF UNDERSTANDING ON ECONOMIC  
COOPERATION WITH GOVERNMENT OF YUGOSLAVIA**

**I. INTRODUCTION**

1. THE REPRESENTATIVES OF THE GOVERNMENTS OF (LIST NAMES OF COUNTRIES), HEREINAFTER REFERRED TO AS COOPERATING STATES, MET (DATE AND PLACE) WITH REPRESENTATIVES OF THE GOVERNMENT OF YUGOSLAVIA IN ORDER TO EXAMINE THAT COUNTRY'S ECONOMY AND EXTERNAL DEBT SERVICE OBLIGATIONS.

OBSERVERS FROM THE INTERNATIONAL MONETARY FUND (IMF), THE INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (IBRD), THE COMMISSION OF THE EUROPEAN COMMUNITIES AND THE ORGANIZATION FOR ECONOMIC COOPERATION AND DEVELOPMENT (OECD) ALSO ATTENDED THE MEETING.

2. THE YUGOSLAV DELEGATION OUTLINED THE SERIOUS ECONOMIC AND FINANCIAL DIFFICULTIES FACED BY THEIR COUNTRY AND THE STRONG DETERMINATION OF THEIR GOVERNMENT TO REDUCE THE ECONOMIC AND FINANCIAL IMBALANCES AND TO REACH THE TARGETS OF THE PROGRAM UNDERLYING THE STANDBY ARRANGEMENT WITH THE IMF. THE YUGOSLAV REPRESENTATIVES ALSO INDICATED THEIR DETERMINATION TO REDRESS THE FINANCIAL SITUATION WITHOUT RECOURSE TO DEBT RESCHEDULING.

3. THE REPRESENTATIVES OF THE IMF DESCRIBED THE ECONOMIC SITUATION OF YUGOSLAVIA AND THE MAJOR ELEMENTS OF THE PROGRAM OF ADJUSTMENT UNDERTAKEN BY THE GOVERNMENT OF YUGOSLAVIA AND SUPPORTED BY THE STANDBY ARRANGEMENT WITH THE IMF APPROVED BY THE EXECUTIVE BOARD OF THE FUND ON (DATE). THIS ARRANGEMENT, APPLYING TO THE PERIOD ENDING ON (DATE) INVOLVES SPECIFIC COMMITMENTS IN BOTH THE ECONOMIC AND FINANCIAL FIELDS. THE IBRD REPRESENTATIVE OUTLINED THE WORLD BANK'S PROGRAM IN YUGOSLAVIA AND DISCUSSED THE RATIONALE FOR A STRUCTURAL ADJUSTMENT LOAN.

4. REPRESENTATIVES OF COOPERATING STATES IN TURN STRESSED THE IMPORTANCE THEY ATTACH TO THE CONTINUING AND FULL YUGOSLAV IMPLEMENTATION OF THE IMF PROGRAM AND LONGER TERM STRUCTURAL ADJUSTMENT.

**II. RECOMMENDATIONS ON ECONOMIC COOPERATION CREDITS**

1. THE GOVERNMENT REPRESENTATIVES HAVE AGREED TO RECOMMEND TO THEIR GOVERNMENTS THAT THEY PROVIDE MEDIUM-TERM ECONOMIC COOPERATION CREDITS OF A MAGNITUDE NO LESS THAN THE FOLLOWING AMOUNTS STATED IN NATIONAL CURRENCIES:

...	COOPERATING GOVERNMENTS	AMOUNTS
...	-----	-----
...	-----	-----
...	-----	-----

IT IS UNDERSTOOD THAT THESE ECONOMIC COOPERATION CREDITS ARE TO BE USED TO STRENGTHEN MARKET TIES BETWEEN YUGOSLAVIA AND ITS FRIENDLY TRADING PARTNERS. THE CREDITS WILL BE

CONFIDENTIAL

- 2 -

A) COMMERCIAL CREDITS GUARANTEED OR INSURED BY THE GOVERNMENTS OF THE COOPERATING STATES OR THEIR APPROPRIATE INSTITUTIONS, HAVING AN ORIGINAL MATURITY OF THREE YEARS OR MORE PURSUANT TO A CONTRACT OR OTHER FINANCIAL ARRANGEMENT CONCLUDED AFTER DECEMBER 2, 1982.

B) LOANS FROM GOVERNMENTS OR APPROPRIATE INSTITUTIONS OF THE COOPERATING STATES, HAVING AN ORIGINAL MATURITY OF THREE YEARS OR MORE, PURSUANT TO A CONTRACT CONCLUDED AFTER DECEMBER 2, 1982.

2. IT WAS AGREED THAT ALL ECONOMIC COOPERATION CREDITS ASSOCIATED WITH THIS UNDERSTANDING AND REGISTERED WITH THE CHAIRMAN OF THE GROUP WILL BE EXEMPT FROM FUTURE DEBT RESCHEDULINGS.

3. MOREOVER, ALL GOVERNMENT REPRESENTATIVES RECOGNIZED THAT, WHILE THIS UNDERSTANDING DOES NOT DEAL WITH THE PROVISION OF SHORT-TERM BRIDGE FINANCING, SUCH FINANCING WILL PROBABLY BE NECESSARY AND WOULD BE IN ADDITION TO AMOUNTS STATED IN SECTION II, PARAGRAPH 1.

### III. GENERAL RECOMMENDATIONS

1. IN ORDER TO SECURE COMPARABLE COOPERATION, THE YUGOSLAV DELEGATION STATED THAT THEIR GOVERNMENT WILL SEEK TO SECURE FROM OTHER EXTERNAL CREDITORS, INCLUDING BANKS, ARRANGEMENTS WHICH WOULD SUSTAIN, IF NOT INCREASE, PRESENT LEVELS OF CREDIT. THE GOVERNMENT OF YUGOSLAVIA ALSO COMMITTED ITSELF, IN SO FAR AS POSSIBLE, TO REDUCE CURRENT ACCOUNT SURPLUSES WITH CEMA COUNTRIES.

2. THE PARTICIPATING STATES ACCEPT THE OBLIGATION TO KEEP THEIR MARKETS OPEN TO YUGOSLAV EXPORTS IN A MANNER THAT IS CONSISTENT WITH THEIR INTERNATIONAL AGREEMENTS WITH YUGOSLAVIA AND OTHER STATES. PARTICIPATING GOVERNMENTS WILL REVIEW WITH THE GOVERNMENT OF YUGOSLAVIA THEIR TRADING RELATIONSHIP WITH THE AIM OF INCREASING MUTUALLY BENEFICIAL TRADE.

3. THE GOVERNMENT OF YUGOSLAVIA PLEDGED IN GOOD FAITH THAT IT WOULD DO -ALL IN ITS ABILITY TO ASSURE THAT DEBT SERVICE OBLIGATIONS TO COOPERATING STATES OR LOANS OR ON CONTRACTS GUARANTEED OR INSURED BY THEM OR THEIR APPROPRIATE INSTITUTIONS WOULD BE PAID ON SCHEDULE. IN TURN THE COOPERATING STATE AGREED TO CONTINUE TO MAKE AVAILABLE TO THEIR EXPORTERS AND THE GOVERNMENT OF YUGOSLAVIA EXPORTS SERVICES AS GOVERNED BY NORMAL COMMERCIAL PRUDENCE AND NATIONAL STATUTE.

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- 3 -

**IV. IMPLEMENTATION**

1. THE DETAILED ARRANGEMENTS FOR ECONOMIC COOPERATION CREDITS WILL BE DETERMINED BY BILATERAL AGREEMENTS TO BE CONCLUDED BY THE GOVERNMENT OF EACH COOPERATING STATE WITH THE GOVERNMENT OF YUGOSLAVIA. COOPERATING GOVERNMENTS AGREED TO REGISTER WITH THE CHAIRMAN PERTINENT DETAILS OF THEIR BILATERAL AGREEMENTS PURSUANT TO THIS UNDERSTANDING. THE DETAILS SHALL INCLUDE DATES OF AGREEMENT, AMOUNTS AND APPLICABLE INTEREST. THE GOVERNMENT OF YUGOSLAVIA WILL KEEP THE CHAIRMAN OF THE GROUP INFORMED OF THE PROGRESS ON BILATERAL AGREEMENTS WITH COOPERATING GOVERNMENTS. THE CHAIRMAN OF THE GROUP WILL PROVIDE ALL OF THIS INFORMATION TO COOPERATING STATES UPON REQUEST.
2. THE RATE AND THE CONDITIONS OF INTEREST TO BE PAID IN RESPECT OF THESE FINANCIAL ARRANGEMENTS WILL BE DETERMINED BILATERALLY BETWEEN THE GOVERNMENT OF YUGOSLAVIA AND THE COOPERATING STATES OR APPROPRIATE INSTITUTIONS OF EACH COOPERATING STATE ON THE BASIS OF THE APPROPRIATE MARKET RATE.
3. THE PROVISIONS OF THIS UNDERSTANDING WILL APPLY PROVIDED THE GOVERNMENT OF YUGOSLAVIA CONTINUES TO HAVE AN ARRANGEMENT WITH THE IMF IN UPPER CREDIT TRANCHES. FOR THIS PURPOSE, THE GOVERNMENT OF YUGOSLAVIA AGREES THAT THE IMF INFORMS THE CHAIRMAN OF THIS GROUP REGARDING THE STATUS OF YUGOSLAVIA'S RELATIONS WITH THE IMF.
4. THE REPRESENTATIVES OF THE GOVERNMENTS OF EACH OF THE COOPERATING STATES AND OF THE GOVERNMENT OF YUGOSLAVIA AGREED TO RECOMMEND TO THEIR RESPECTIVE GOVERNMENTS OR APPROPRIATE INSTITUTIONS THE CONTENTS OF THIS MEMORANDUM OF UNDERSTANDING AND FURTHER RECOMMEND THAT THEY INITIATE BILATERAL NEGOTIATIONS ON ECONOMIC COOPERATION CREDITS AT THE EARLIEST OPPORTUNITY.



CONFIDENTIALPolandRecent DevelopmentsPolitical

Martial law was officially suspended at midnight, December 30, 1982. With this step the GOP lifted many of the controls still in place since martial law was imposed on December 13, 1981. (i.e, censorship of mailings, telecommunications, monitoring of telephone conversations, etc). Many of the 6,000 people who were interned under martial law, including Lech Walesa, were released. Nevertheless, the GOP retains emergency powers and there are still 1,500 individuals behind bars for martial law offenses. The GOP is threatening to put twelve former internees on trial. Many of the former internees are being harassed by Polish security forces. Furthermore, new laws enacted earlier in 1982 have permanently added some new restrictions which did not exist before. In short, the post martial law situation appears ambiguous.

Debt Rescheduling

In April 1981 the Governments of 16 Western countries signed a multilateral agreement to reschedule 90 percent of the principal and interest falling due from May 1981 to December 1981. The official rescheduling totaled \$2.3 billion; the U.S. share was \$381 million. The USG signed its bilateral rescheduling agreement with Poland in September 1981. However, the implementing agreements with the Commodity Credit Corporation, Export-Import Bank and AID have not been signed because of the imposition of martial law on December 13, 1981. U.S. agencies have been paid \$24 million of the \$42 million not rescheduled.

Poland owes Western Governments \$2.7 billion in principal and \$1 billion in interest in 1982 on loans granted or guaranteed by official creditors, plus nearly \$300 million in interest on obligations covered by the 1981 government rescheduling agreement. The Poles have paid some interest on the 1981 agreement to those governments. Virtually nothing has been paid to official creditors in 1982.

The official creditors met in Paris in October 1982 to review documents provided by the Poles reporting on the state of the economy at the end of 1981 and outlining their stabilization program. The Poles also asked for a meeting to reschedule their debts. In response, the official creditors sent a letter to the Poles (1) advising them that the conditions for beginning rescheduling discussions did not yet exist,

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-2-

(2) complaining about discriminatory payment practices and  
(3) requesting data and information regarding measures to be taken to overcome the economic crisis and meet their obligations. A reply has not yet been received.

In April 1982 Western commercial banks concluded their 1981 debt rescheduling agreement with Poland (\$2.3 billion). The Poles paid all interest due in 1981 as a precondition to signing the agreement and later paid the 5 percent of principal that was not rescheduled. On November 3, 1982, Western banks and the Poles signed an agreement to reschedule 95 percent of principal due in 1982. The remaining 5 percent was to be paid in two installments in 1983. The bankers also agreed to provide short-term export credits to the Poles equal to one-half of the 1982 interest payments they received from them.

At the end of December we were informed by the French that the Swiss had asked that Polish debt rescheduling be put on the January 11, 1983 Paris Club agenda. It is being discussed by creditors under "other business" rather than as a separate agenda item. The French also informed us that the Swiss and other neutrals were prepared to break ranks and enter into bilateral debt rescheduling negotiations with Poland unless there is some movement in a multilateral context.

Several of the official creditors, including the neutrals and the U.K., have already expressed their doubts about the appropriateness of delaying a Polish rescheduling. We can expect growing pressure to begin the rescheduling process.

#### Next Steps

- ° We need a clear analysis of the measures that the Polish government has recently taken.
- ° We need to know the extent to which our Allies share our analysis.
- ° On the basis of that information, the SIG-IEP must take a decision on what measures, if any, we can undertake for resuming negotiations on debt rescheduling.
- ° These measures should be agreed to with our Allies and would be implemented in a step-by-step approach.

CONFIDENTIAL

CONFIDENTIAL

-3-

- ° Initially they could include:
  - U.S. signing of bilateral implementing agreements for the 1981 debt rescheduling
  - As provided for in the 1981 rescheduling, creditors meet with the Poles to review their implementation of the agreement.
  - Creditors could meet to review the answers (when provided) to questions which were put to the Poles last October.
  - Creditor's meeting on 1982 rescheduling, perhaps to include 1983 debt as well.

Any movement on Polish debt rescheduling must be closely coordinated with our Allies and other creditors. We must also keep the Hill informed of our actions and as appropriate be willing to defend them in public hearings.

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Romania

Issue

Should the U.S. Government agree to a request from Romania that the Paris Club reschedule its debt payments due in 1983?

Background

In late 1981 Romania, through a combination of its mismanagement of its economy and finances and the effects of the Polish debt crisis, fell into arrears by over one billion dollars in repayment of its commercial debt. As a result, foreign lenders reduced its credit facilities further and the IMF suspended Romania's access to the SDR 1.1 billion standby arrangement it had obtained in the previous June.

The GOR launched an effort to restore its financial position early in 1982. In June the IMF Board approved a \$650 million standby program for 1982-1983. The standby conditioned drawings under the program on a successful rescheduling of Romania's public and private debts.

Romania's government creditors agreed to a rescheduling of its official debt the following month. The rescheduling covers 80 percent of the principal and interest on Romania's medium- and long-term debts due in 1982 plus arrears from 1981; the Romanians have 6.5 years to pay, including three years grace. (The U.S. share amounted to about \$50 million of the \$400 million rescheduled.)

The GOR began discussions with nine of its major bank creditors in January 1982. The negotiations proceeded fitfully (in part due to poor management by the GOR). In early December the banks accepted terms for a rescheduling of \$1.7 billion that are comparable to those worked out under the Paris Club, except that the banks (1) would reschedule their short-term debt but not interest and (2) have agreed to let the GOR delay payment on its nonconsolidated debt until March of this year. The banks had wanted the GOR to reschedule its supplier credits. Negotiations are proceeding, but some firms are said to have balked at converting their short-term trade loans to 6.5 year credits.

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-2-

### Recent Developments

In late December the IMF Board reviewed Romania's economic performance and its progress in rescheduling its debt, and authorized the GOR to draw SDR 300 million under its standby-- enough to get the GOR through the end of 1982. An IMF mission is in Bucharest now and proposals regarding the GOR's adjustment program and additional drawings under its standby arrangement will be submitted to the Board after its return.

We are told that the Romanians have met their interest payments to the banks through the end of 1982. As far as the U.S. Government is concerned, the GOR has met most of the short-term and non-consolidated debt payments that were due to Eximbank. The bilateral agreement has not yet been signed, however.

Meanwhile, the GOR has begun to lay the groundwork for rescheduling its 1983 obligations. Late last month, Romania notified its creditor banks that it (1) was not going to make any payments on the principal of debts due in 1983 and (2) wanted a rescheduling of its 1983 obligations. Representatives of its major creditors will be meeting with GOR officials later this month.

Meanwhile, the French have notified us that the Romanians have approached them about rescheduling their 1983 official debt payments under the Paris Club. The GOR is proposing, as was the case last year, to reschedule principal and interest due on their medium- and long-term debts for 6.5 years (including 3 years grace); however, they also proposed to reschedule 75 percent (vs. 80 percent this year) and only for the 8 countries which they owe more than SDR 1.5 million (vs. all 14 creditor countries). The French will raise the issue at a Paris Club meeting this week.

To a great extent, Romania's debt problems were due to a concentration of short-term debt (over 25 percent of its outstanding debt of \$10.6 billion in 1982). The short-term component has now been paid off (to governments), rescheduled (by banks), or under negotiation for rescheduling (with suppliers); little new credit is coming in. Romania's debt service payments are projected to decline significantly this year as compared to last year and even more in 1984. The IMF staff, in their December review of the Romanian stand-by arrangement, opined that if the GOR implemented all of the adjustment measures called for under the arrangement, it should be able to restore its creditworthiness and meet all of its 1984 external commitments. We have our doubts about some aspects of this program, but that goal may well be within reach.

CONFIDENTIAL

-3-

Proposals: That the U.S. Government agree to participate in Paris Club discussions on rescheduling Romania's 1983 payments on its official debt. This would be subject to three conditions: (1) that the Paris Club not meet until after the IMF Board has taken action on GOR access to the Fund's resources under its standby arrangement (in February or March); (2) that the French chairman request the Romanians to make a full accounting, including comprehensive data, of their progress in rescheduling their 1982 debt and arrearages from 1981; and that the cut off point for excluding countries from rescheduling be SDR 1 million as was the case last year rather than SDR 1.5 million as requested by the Romanians.

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Sixth Replenishment of the  
Inter-American Development Bank (IDB)

After fifteen months of negotiations of which the last six have been particularly difficult, the member countries of the IDB, in a replenishment meeting held Dec. 16-17, reached agreement in principle on the major issues of the Sixth Replenishment covering the 1983-86 lending program.

We have informed the other members that before we can formally agree to the replenishment proposal we will need SIG-IEP approval of this agreement.

We believe that we have been successful in achieving our primary budgetary and policy goals. For the most part, this proposal falls within previously approved limits. We are still under the limit on paid-in capital and on Fund for Special Operations (FSO) contributions (budget authority and outlays). However, we will exceed our approved authority on callable capital (program limitations).

Description of Replenishment Proposal

In order to provide a clearer view of how we fared in the replenishment negotiations it is important to consider that the Latin Americans originally proposed a Sixth Replenishment that would require a capital increase of over \$22 billion, concessional lending program of \$2.3 billion and paid-in capital of 7.5 percent. This would have required a total U.S. capital subscription of \$7,783 million, of which \$584 million would be paid-in capital (\$146 million annually), \$7,199 million in callable capital (\$1,800 million annually) and total U.S. concessional contributions of \$326 million (\$82 million annually). The original Latin proposal translates into an overall lending program of \$14.5 billion.

The following table, compares our negotiating authority with the parameters of the tentative agreement which will be funded over a 4 year period beginning in U.S. FY 1984.

- 2 -

Comparison of Approved Negotiating Authority  
with Sixth Replenishment Proposal

	<u>Authority</u>	<u>Tentative Agreement</u>
Total Lending Size	\$12.2 billion	\$13.0 billion
Percent of Paid-in	5 percent	4.5 percent
Amount of U.S. Paid-in Capital (per year)	\$59.9 million	\$58.0 million
Amount of U.S. Callable Capital (per year)	\$1,139.0 million	\$1,231.0 million
Total Fund for Special Operations (FSO)	\$800.0 million	\$725.0 million
U.S. Contribution to FSO (per year)	\$80.0 million	\$72.5 million
Total Size of Capital Replenishment	\$13.9 billion	\$14.85 billion
Total U.S. Subscription of Capital Replenishment	\$4,795.5 million	\$5,155.85 million

In terms of budgetary outlays we are \$37.6 million below our limit. To put this figure in a broader perspective it is important to note that the FSO of the Sixth Replenishment would be about \$1 billion less than that of the Fifth Replenishment. Because of the sharp reduction in the size of the FSO, United States total budgetary outlay for the Sixth Replenishment would be \$384 million less than the current Fifth Replenishment.

In addition to these substantial budgetary savings we made significant progress in the maturation/graduation process of the IDB. As part of the Sixth Replenishment the borrowing member countries will provide all of their paid-in capital subscriptions and FSO contributions in convertible currencies. During the previous replenishment 66 percent of paid-in capital (of all borrowing members) and 75 percent of FSO contributions of the wealthier borrowing members was provided in convertible currencies. The IDB is the only multilateral development bank (MDB) to achieve this degree of burdensharing. The IDB is



- 3 -

also the only MDB to require its borrowing members to provide contributions to the soft fund. In addition, the economically more advanced countries will be borrowing on harder terms than before.

One of our policy goals has been to make the MDBs more financially self-sufficient. In the IDB we made significant progress in achieving this goal by reducing the level of paid-in capital from its previous level of 7.5 percent to our proposal of 4.5 percent. We believe the 4.5 percent is consistent with our desire to maintain the financial integrity of the Bank while at the same time weaning it from public support.

The other member countries believed, however, that a \$12 billion lending program, as proposed by the United States was inadequate. The consensus of these countries was that an additional \$1 billion was required, bringing the total lending program up to \$13 billion. The United States was able to obtain Bank Management agreement to provide \$500 million in additional lending authority by borrowing against its ordinary capital general reserves. It should be noted that Management had earlier agreed to provide \$2 billion in additional lending authority by redefining its lending limitations. Both of these changes in the Bank's financial operations were suggested by the IDB's Underwriters and supported by the members of the Bank. However, in order to help reach the \$13 billion figure the United States will exceed its limitation on callable capital by \$368 million (\$92 per year for four years).

#### Recommendation

Given the success we have had in (1) sharply reducing budgetary outlays from the previous replenishment, (2) coming in below the previously approved figures on budgetary outlays, and (3) in making significant progress in the maturation process of the institution, we recommend that the SIG-IEP authorize the use of the additional \$368 million in callable capital.